

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

August 16, 2005

The Capital Projects and Bond Oversight Committee met on Tuesday, August 16, 2005, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senator Elizabeth Tori, Co-Chair; Representative Paul Marcotte; and Senators Jerry Rhoads and Dan Seum.

Guests testifying before the Committee: Mike Walters, Morehead State University; Larry Owsley, University of Louisville; Bill Hintze, Governor's Office for Policy and Management; Jim Abbott, Finance and Administration Cabinet; Warren Nash, Economic Development Cabinet; Jody Hughes and Sandy Williams, Kentucky Infrastructure Authority; and Terri Fugate, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kristi Culpepper, and Shawn Bowen.

Representative Denham called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence items. Ms. Collins said members' folders included follow-up correspondence from Greg Rush, Staff Assistant, Justice and Public Safety Cabinet, in response to questions raised by the Committee at its July meeting regarding the Envelope Stabilization project at Northpoint Training Center; correspondence from Robbie Rudolph, Secretary, Finance and Administration Cabinet, reporting his approval of Northern Kentucky University's plan to use the Construction Management-at-Risk project delivery method for construction of the Northern Kentucky Regional Special Events Center; the Administrative Office of the Courts' annual report for the Court Facility Use Allowance Contingency Fund for Fiscal Year 2005; and the Kentucky Lottery Corporation's monthly financial report for June 2005.

Representative Marcotte made a motion to approve the minutes of the July 20, 2005, meeting as submitted. The motion was seconded by Senator Tori and passed by unanimous voice vote.

Representative Denham said the first item of new business was a land acquisition report for Morehead State University (MoSU). He called on Mr. Mike Walters, Vice President for Administration and Fiscal Services, MoSU, to discuss the project. Mr.

Walters said the University plans to acquire property located at 320 University Street at a cost of \$327,763. He said this acquisition is part of an authorization MoSU received in the 2004-06 Executive budget to use up to \$2 million of their restricted funds to acquire land related to the Campus Master Plan.

Mr. Walters said this property became available for sale in the spring of 2004, but at that time, the University did not have sufficient authorization in the 2002-04 budget to acquire it. He said the University asked the MoSU Foundation to acquire the property with the understanding that once the University received authorization in the 2004-06 budget, they would purchase the property from the Foundation through a 10-year lease-purchase agreement. Mr. Walters said the annual cost for the lease-purchase is \$40,706, and the funds are included in the University's 2005-06 operating budget. If carried to the full ten-year term at the current interest rate, the total lease-purchase cost of the transaction will be \$407,058.

Representative Denham said acquisitions in excess of \$400,000 made under land acquisition pools are to be reported to the Committee, and no further Committee action is required.

Mr. Larry Owsley, Vice President for Finance and Administration, University of Louisville (U of L), next discussed a project report for the Community Park Residence Hall Construction project. Mr. Owsley said the 2005 General Assembly authorized U of L to construct a \$14 million residence hall using restricted funds. This project is the third phase of the University's plan to increase their total bed capacity by 1,250.

In order to finance this project, Mr. Owsley said the Louisville/Jefferson County Metro Government will issue industrial revenue bonds for this project, and the debt service will be secured by project revenues from a lease with ULH, Inc., a subsidiary of the U of L Foundation. He said the bonds will be insured and further backed by a financial guaranty from the U of L Foundation. Mr. Owsley said the debt will not be an obligation of the Louisville/Jefferson County Metro Government, U of L, or the state; the debt will be project secured. Mr. Owsley said he has reviewed the financing arrangement with the Governor's Office for Policy and Management, the Office of Financial Management, and the Office of the Secretary for Finance and Administration, and all three have agreed the transaction has the appropriate authorization and is acceptable.

Mr. Owsley then reported a \$1,080,000 project scope increase for this project. The scope increase will be financed from restricted funds, and is needed due to market increases.

In response to questions by Representative Denham, Mr. Owsley said ULH, Inc. is a subsidiary corporation of the U of L Foundation. It is a separate corporation, and its primary purpose is to secure housing projects. He said the University will enter into a

long-term land lease with ULH, Inc., and industrial revenue bonds will be sold. ULH, Inc. will then enter into a lease arrangement to pay off the debt service on those bonds, and when the bonds are paid off, the improvements will revert to U of L.

Representative Denham asked Mr. Owsley to provide a follow-up report to the Committee once the bond sale for this project has been completed.

Senator Rhoads made a motion to approve the scope increase for the U of L project. The motion was seconded by Senator Tori and passed by unanimous roll call vote. The revised project scope is \$15,080,000.

Representative Denham noted that this was Bill Hintze's last appearance before the Committee as the State Deputy Budget Director. He noted that Mr. Hintze had worked with the Committee since it was established in 1979, and invited Mr. Hintze to discuss his work with the Committee.

Mr. Hintze said he was present at the creation of the oversight committee and he thought it would be instructive for both Committee members and the audience to reflect on what has happened since its establishment by the 1979 Special Session. He noted a group of senators as the "Black Sheep Squadron" wanted to create a system of oversight to assure that a project budgeted would be delivered. Prior to that time, there was no assurance. Mr. Hintze gave examples of projects (facilities to house the Justice Cabinet and the National Resources Cabinet) authorized prior to the 1979 Special Session that were authorized but never built. He said while there have been modifications over time, the oversight process contained in the 1979 legislation is still the process today.

Mr. Hintze elaborated on the history of the Committee, both its staff and chairs, and noted that as the Executive Branch liaison, today was his 277th appearance before the Committee. He said that he hoped the collaboration between the two branches will continue and said that the efforts in 1979 to make the system work effectively to deliver the projects that are enacted into law is a real success story. He said the capital budget has mushroomed over time, and the constraints and parameters put in place with the 1979 legislation have been crucial to project delivery. Mr. Hintze closed by saying that it had been a pleasure to work with the Committee, and he hopes that the good relationship and accountability that has developed as a result of the 1979 legislation will continue.

Members of the Committee offered their congratulations to Mr. Hintze and thanked him for his remarks. Representative Denham asked Mary Lynn Collins to read a resolution honoring Mr. Hintze. A motion was made by Senator Seum and seconded by Representative Marcotte that the resolution be adopted. It was unanimously adopted by voice vote.

Representative Denham asked Mr. Hintze, and Mr. Jim Abbott, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to present the Finance Cabinet's monthly report to the Committee. Mr. Hintze reported an allocation of \$120,000 for an Emergency Sprinkler System Replacement project at the Kentucky Horse Park. Mr. Hintze said the sprinkler system in the Breeds Barn is 27 years old and needs to be replaced, and the agency does not have funds available to replace it. Representative Denham said allocations from the Emergency Account must be reported to the Committee within 30 days, and no further action by the Committee is required.

Mr. Hintze next reported an allocation of \$1,600,000 from the State-owned Dam Repair Pool to repair the Beshear Lake Dam in Caldwell County. This project was initiated with an allotment of \$100,000 from the 1992-94 budget for preliminary work.

Representative Denham asked how many dams the Commonwealth owns. Mr. Hintze said there are many state-owned dams for which the state is responsible. He said the three main state agencies responsible for dams are the Environmental and Public Protection Cabinet, the Department of Fish and Wildlife Resources, and the Transportation Cabinet. Some of the universities also have dams associated with their reservoirs. Mr. Hintze said they prefer to use another source of funds for dam repair projects when they can, but for dams under the control of the Environmental and Public Protection Cabinet, General Fund supported bonds are used. He said none of the dams are considered to be an imminent hazard or an emergency.

In response to a question from Senator Seum, Mr. Hintze said the cost of repairs for dams under the Department of Fish and Wildlife Resources would be financed from agency funds.

Representative Denham noted that the Cabinet is applying \$1,300,000 from bond funds authorized in the 2000 session. He asked if taking so long to utilize bond proceeds creates problems with IRS rules. Mr. Hintze said it can present a problem, and they try to finance such activity through some other means of interim financing.

Representative Denham said the enacted budget bill requires that projects over \$400,000 funded from the Repair of State-owned Dams Pool be reported to the Committee, but no further action is required.

Mr. Hintze then reported five allocations in excess of \$400,000 each that have been made from the Department for Facilities and Support Services Maintenance Pool Fund. He said these projects were authorized from state bond funds in the 2004-06 budget bill, and this is the first time a maintenance pool is being used to fund ordinary maintenance projects costing \$400,000 or more each. The five allocations total \$3,750,000, and include: Jones Building Renovation project, \$2,300,000; Holmes Street/Mechanical Building project, \$600,000; Dehumidification-Central Lab project,

\$180,000; Bush Building Elevator Upgrade, \$385,000; and Owensboro State Office Building Chiller Replacement, \$285,000. Representative Denham said the enacted budget bill requires that Maintenance Pool allocations over \$400,000 be reported to the Committee, but no further action is required.

Mr. Hintze next presented two land acquisition reports. The first was a report of an unbudgeted land acquisition by the Department of Natural Resources. The agency plans to acquire 1,600 acres in Bullitt County known as Knobs State Forest. The purchase will be funded with \$1,608,000 in Heritage Land Conservation funds and \$1,677,000 in federal funds. The total scope of the project is \$3,285,000.

Senator Rhoads made a motion to approve the land acquisition project. The motion was seconded by Senator Tori and passed by unanimous roll call vote.

The second land acquisition report presented was for the Department of Fish and Wildlife Resources. The Department plans to acquire 500 acres in Fleming County known as the Bailey tract. Mr. Hintze said the acquisition is estimated to cost \$482,500 (restricted funds). Representative Denham said this land acquisition project was part of a budgeted land acquisition pool and did not require further action by the Committee.

Mr. Hintze next reported that the Personnel Cabinet plans to consolidate three smaller capital projects authorized prior to 2005 that relate to a major project to replace the state's current personnel and payroll system as authorized by the 2005 General Assembly. Mr. Hintze said the \$25 million bond issue authorized in the current budget will upgrade the personnel system. He said they thought it was advisable to consolidate the previously authorized projects with the larger project so they could be implemented at one time. The combination of projects include: On-Line Access to Employee Records project, \$550,000; New Personnel-Payroll System for State Government (design) project, \$1,450,000; Kentucky Employee Self Service project expansion, \$200,000; and Replacement of the Personnel Payroll System project, \$25,000,000. The consolidated project scope is \$27,200,000.

In response to a question from Representative Denham, Mr. Hintze said the current payroll system dates back to 1970. The system lacks the unification expected in a modern personnel and payroll system. He said until now, they have not had the funds to replace the system. Representative Denham said no further Committee action is required for this item.

Mr. Hintze next reported that \$398,000 from the General Fund Surplus Account will be used to cover moving costs for the Department for Facilities and Support Services, which is relocating from the Capitol Annex building to the Bush building. This move is being made pursuant to the 2004-2006 Executive Budget to make additional space available in the Capitol Annex for the General Assembly.

Representative Marcotte asked what the timetable is for the other agencies that need to relocate. Mr. Hintze said some of them have already been moved. Mr. Abbott added that as of September 1, the majority of the space requested by the legislature in the Capitol Annex will be available. He said there are some smaller areas within the overall requested area that will not be vacant until October 1.

Representative Marcotte asked where the additional LRC hearing rooms will be located. Mr. Abbott said the additional hearing rooms will be located on the first floor of the Capitol Annex where the Finance Cabinet's Division of Engineering and Contract Administration is presently housed. He said this Division will vacate the space by September 1.

Representative Denham said the legislative staff housed on the fourth floor of the Capitol Building do not have good accommodations, and the area is a fire hazard. He said he hoped safer and better accommodations could be found for those staff members on the fourth floor. Mr. Hintze agreed that the accommodations on the fourth floor are substandard. He said there has been a lot of planning done with respect to what could be done to accommodate all branches of government, both in the Capitol Complex and elsewhere.

The final item Mr. Hintze reported was the Commerce Cabinet's allocation of the \$35 million Parks Renovation Pool for 27 projects. Representative Denham said no further action is required on this project.

Representative Denham thanked Mr. Hintze and Mr. Abbott, and wished Mr. Hintze well in his retirement.

Mr. Abbott next presented three leases for the Division of Real Properties. He first reported a square footage modification for the Council on Postsecondary Education (CPE) in Franklin County. The Council's lease is being amended to add 2,065 SF to the lease.

Senator Tori asked why the additional square footage is needed. Mr. Abbott responded that the additional square footage being added to this lease is CPE's pro-rated share of the common areas (staircases, halls, bathrooms, etc.). Since the Commonwealth now occupies 100% of the facility, CPE is now responsible, per statute, for a share of the common space. He explained that this facility has always been occupied by the state, but not at 100% occupancy. He said the state had not previously been charged for common space.

Mr. Abbott then reported a new lease for the Office of the State Treasurer. He said the Treasurer's Office is relocating from the Capitol Annex to leased space at 1050 US

127 South in Frankfort. The Treasurer's Office will occupy 18,480 SF at an annual cost of \$149,318, and the lease is being acquired through KRS 56.813(1), which permits procurement of additional space under the same terms as an existing lease as long as the rental rate does not change. The Kentucky Housing Corporation is presently housed in that facility. Mr. Abbott said the lessors, Rodney & Margaret Ratliff and James Ramsey, will cover the cost of the renovations, and the state will pay approximately \$350,000 for the agency to move.

Senator Tori asked if in-house personnel could be used to move the agency. Mr. Abbott said they often use the services of the Kentucky Correctional Industries to move agencies, but in order to protect the confidentiality of the information it handles, the Treasurer's Office has requested that a bonded moving company be used for the move.

Representative Marcotte noted the agency's square footage is increasing by 47%. He asked why the agency requires so much more space. Mr. Abbott said the Treasurer's Office must now pay for common space since it is moving to leased space. He added that the Treasurer's Office, having been a long-term tenant of the Capitol Annex, has on several occasions requested additional space to facilitate its needs. In this case, it is a combination of those two factors that are driving the increase in square footage.

Lastly, Mr. Abbott reported a lease renewal with a rate increase for the Auditor of Public Accounts. Mr. Abbott said the lease was bid competitively, and there were four responses to the ad. He said the existing lessors, Ernest and Barbara Hanna, offered the lowest price per square foot, and they are recommending renewal of the lease at an annual cost of \$192,542.

Senator Rhoads made a motion to approve the three lease reports submitted by the Division of Real Properties. The motion failed due to lack of a second, and Senator Rhoads later withdrew his motion due to lack of a quorum.

Representative Denham asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, to report on a proposed Economic Development Bond (EDB) grant.

Mr. Nash reported a proposed grant of \$500,000 to the Calloway County Fiscal Court to benefit Webasto Roof Systems, Inc., a subsidiary of Webasto International, Inc. headquartered in Munich, Germany. The grant will be used to offset the cost associated with a new 118,000 square foot facility in Murray, Kentucky, completed in April. Webasto is a global manufacturer of automobile roof and heating systems. This is the third facility the company has located in Kentucky; the other two are located in Fayette County.

Mr. Nash said the EDB grant agreement stipulates that Webasto will create 150 new full-time jobs for Kentucky residents within two years of disbursement of the grant proceeds, and the company will be required to pay the new employees an average wage of no less than \$15.75 per hour. Webasto will also be required to maintain these jobs for an additional three years. He said if the company fails to meet these requirements, it must pay the Calloway County Fiscal Court \$3,333 per job not created or maintained. Additionally, if the company fails to meet the wage requirements, a formula incorporated into the grant document will require the company to pay a pro-rata portion of the grant back to Calloway County.

Representative Denham asked how many jobs Webasto currently offers in Kentucky. Mr. Nash said the company was required to create and maintain 191 new jobs for the first facility built in Fayette County. For the second facility, they were required to create and maintain an additional 198 full-time jobs. He said the company is in compliance with its employment requirements.

Senator Tori made a motion to approve the EDB grant. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Representative Denham noted that the Committee's quorum had been restored, and asked Mr. Abbott to return to the table to further discuss the three leases submitted by the Division of Real Properties. Mr. Abbott reiterated the need for the modification in the lease for the Council on Postsecondary Education in order to pay for the common space.

Senator Tori made a motion to approve the lease modification report for CPE. The motion was seconded by Senator Seum and passed by unanimous roll call vote.

In response to a question from Representative Denham, Mr. Abbott said in order to facilitate the wishes of the 2005 legislature for more space in the Capitol Annex, the administration is reorganizing the space it occupies in the building. The offices of both the Agriculture Commissioner and the Treasurer are being moved out of the Capitol Annex. Then offices of the Finance and Administration Cabinet, representing approximately 3,500 SF of space on the second, third, and fourth floors, starting at the center quarter of the annex and extending across the front facing the Capitol Building, are being relocated to the areas that were occupied by the Agriculture Commissioner and the Treasurer. Then, the 3,500 SF of space being vacated will be made available to the legislature.

Representative Denham asked if there are any extenuating circumstances relating to the proposed Treasurer's Office lease that the Committee needs to be aware of. Mr. Abbott said due to the short timeframe for relocation, they were not in position to go through the normal leasing process. He said the Division of Real Properties searched for properties currently being leased by the Commonwealth that would accommodate the

Treasurer's Office, and identified two buildings: one at Silverlake and the West Frankfort Office Complex.

Senator Rhoads asked if the proposed lease rate for the Office of the State Treasurer is the same as the Kentucky Housing Corporation, the other occupant in the building. Mr. Abbott said the rates for both agencies are the same.

Senator Rhoads asked if the lease rate (\$8.08 per SF) being paid for the Treasurer's Office is competitive for Franklin County. Mr. Abbott said after the refurbishment of the building, this building will be superior to a number of the buildings the state is currently leasing. He said the average lease rate in Franklin County is \$7.78 SF, but once the improvements have been completed, this building will not be average office space.

Representative Denham asked if this lease has been agreed upon among the members of the Executive Branch and the Finance and Administration Cabinet, and if this was the best possible alternative for the Office of the State Treasurer. Mr. Abbott said they have met with staff in the Treasurer's Office over the last several months in working through the availability of properties. He said they have worked hard to accommodate operational needs of that office, including a vault for unclaimed property and improvements relating to special climatic conditions required for the printing operation. He said the landlord has agreed to pay for these accommodations at a cost of approximately \$750,000.

In response to a question from Representative Denham, Mr. Abbott said Finance Secretary Rudolph is very aware of this lease, and had been concerned that a lease for this office would be at the upper end because of the needed improvements.

Senator Tori asked why this lease was not advertised through competitive bid. Mr. Abbott said the request to relocate the Office of the State Treasurer is a result of action taken during the 2005 Session of the General Assembly. He said if a lease is bid competitively in accordance with the statute, it typically takes nine months for an existing facility, and as much as two years for new construction.

Senator Tori asked why the Treasurer's Office needs more office space. Mr. Abbott said the agency needs to address inadequate space issues they have dealt with for years. In addition, a portion of the increase is for common space (halls and bathrooms), that is not included in the estimate of the space currently occupied by the State Treasurer in the Capitol Annex. Common space normally represents 25-30% of the overall occupied usable area, and is built into the lease.

Senator Rhoads made a motion to approve the new lease for the Treasurer's Office. The motion was seconded by Senator Seum and passed by unanimous roll call vote.

Mr. Abbott next discussed a lease renewal report for the Auditor of Public Accounts. He said the lease was bid competitively, and four responses were received. He said they are recommending continuation with the current lessors, Ernest and Barbara Hanna, since they offered the lowest rate. He said the rate would increase from \$7.50 SF to \$8.50 SF.

In response to questions from Representative Denham, Mr. Abbott said there are no extenuating circumstances or conflicts associated with the lease. He said the Executive Branch believes this lease is the best possible alternative.

Senator Rhoads made a motion to approve the lease renewal for the Auditor of Public Accounts. The motion died due to a lack of a second.

Representative Denham asked Mr. Abbott to work with staff on this lease and present it to the Committee again at the September meeting.

The next report was presented by Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), who introduced Mr. Jody Hughes, Executive Director, KIA. She then reported two new KIA loan requests. The first request was a Fund A (Federally Assisted Wastewater Revolving Loan Fund) loan for the City of Alexandria in Campbell County. The proceeds of the loan, \$426,220, will be used to install 10,500 feet of additional sewer line.

Ms. Williams next reported a \$165,460 increase for a Fund A loan for the City of Lebanon Junction in Bullitt County. The additional funds are needed to extend sewer service to 25 residences and one church. The revised loan amount is \$1,820,062.

Senator Tori made a motion to approve the two KIA loan requests. The motion was seconded by Senator Seum and passed by unanimous roll call vote.

The next report was provided by Ms. Terri Fugate, Office of Financial Management (OFM). Ms. Fugate reported the first of five new bond issues: Kentucky Asset/Liability Commission (ALCo) Project Notes, 2005 Agency Fund Second Series. The proceeds from this bond issue, \$151,311,148, will be used to provide interim financing for Agency Fund supported projects.

Senator Seum made a motion to approve ALCo Project Notes, 2005 Agency Fund Second Series. The motion was seconded and approved by unanimous roll call vote.

Ms. Fugate next reported ALCo Project Notes, 2005 General Fund Second Series Bond Anticipation Notes, with gross proceeds of \$724,498,493. The proceeds from this bond issue will be used to provide interim financing for General Fund supported projects.

Senator Rhoads made a motion to approve ALCo Project Notes, 2005 General Fund Second Series Bond Anticipation Notes. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

The next new bond issue reported was State Property and Buildings Commission (SPBC) Revenue Bonds, Project No. 85. The proceeds from this bond issue, \$232,089,594, will be used to finance a segment of the capital projects authorized by the 2005 General Assembly, and four projects under an economic development pool authorized by the 2003 General Assembly.

Senator Tori made a motion to approve SPBC Revenue Bonds, Project No. 85. The motion was seconded by Representative Marcotte and passed by roll call vote.

Ms. Fugate reported another new bond issue: SPBC Revenue Bonds, Project No. 86, with gross proceeds of \$5,776,338. The proceeds will be used to provide financing for the State Fair Board Design East Wing/Hall Renovation project.

Senator Seum made a motion to approve SPBC Revenue Bonds, Project No. 86. The motion was seconded by Senator Tori and passed by unanimous roll call vote.

The last bond issue reported was Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Revenue Bonds, Series 2005A-1 through 2005 A-7; and Series 2005 B-1. The proceeds from this bond issue, \$400,000,000, will be used in originating federal student loans for Kentucky residents and students attending Kentucky postsecondary institutions.

Representative Marcotte made a motion to approve the new bond issue for KHESLC. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Ms. Collins reported one follow-up report for a previously approved bond issue: Kentucky Economic Development Finance Authority Variable/Fixed Rate Demand Solid Waste Disposal Revenue Bonds (Republic Services, Inc. project), Series 2005. This bond issue was previously approved, and no further action was required for the report.

Ms. Fugate next presented two new school bond issues with School Facilities Construction Commission (SFCC) debt service participation for Floyd County and Taylor County.

Senator Tori made a motion to approve the two school bond issues. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Collins said there was one locally-funded school bond issue from Jessamine County submitted to the Committee for review this month. She said all disclosure information has been filed, and no further action on the bond issue was required.

Also included in members' folders was the debt issuance calendar. No action was required for this report.

Representative Denham said the Committee's next meeting is scheduled for September 20 at 1:00 p.m. in Room 129, Capitol Annex. He also said the Committee would meet at Maysville Community College on October 18. With there being no further business, the meeting adjourned at 3:00 p.m. in honor of William H. Hintze.